OHIO DEPARTMENT OF EDUCATION
FRANKLIN COUNTY

MINISTERIAL DAY CARE ASSOCIATION
STATE HEAD START EXPANSION PROGRAM

SPECIAL AUDIT REPORT

JULY 1, 1997 THROUGH SEPTEMBER 30, 2000

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

OHIO DEPARTMENT OF EDUCATION
FRANKLIN COUNTY

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OHIO DEPARTMENT OF EDUCATION
FRANKLIN COUNTY

SCHEDULE OF ADMINISTRATIVE PERSONNEL
AS OF SEPTEMBER 30, 2000

Ohio Department of Education:

Susan Tave Zelman	Superintendent of Public Instruction
David Varda	Associate Superintendent of Public Instruction
Hank Rubin	Associate Superintendent of Public Instruction
Matthew J. DeTemple	Chief Legal Counsel
Mary Lou Rush	Interim Director of Early Childhood Education
Pat Vaughan	Early Childhood Educational Consultant

Ministerial Day Care Association:

Verneda Bentley	Executive Director
Luther McDaniel	Assistant Executive Director
Josephine Ward	Head Start Director

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REPORT OF INDEPENDENT ACCOUNTANTS

Susan Tave Zelman, Ph.D.
Superintendent of Public Instruction
Ohio Department of Education
25 South Front St., Mail Stop 707
Columbus, Ohio 43215

Pursuant to your request, we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report," for the period July 1, 1997 through September 30, 2000 (the Period). These procedures were performed solely to determine the eligibility of 1,609 Head Start children funded by the State Expansion Program (the Program) during the 1997-1998 program year, whether Ministerial Day Care Association (MDCA) expenditures for the Program were within approved budgets, and whether purchases of computer equipment, software, and services by the MDCA in the total amount of $782,430 were made pursuant to applicable authority.

This engagement was performed in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures we performed and the results of those procedures are summarized as follows:

1. We determined the eligibility of 1,609 MDCA Head Start children funded by the Program during the 1997-1998 program year.

   Significant Results - MDCA received $6,106,027 from the Ohio Department of Education (ODE) based on representations from MDCA that they would provide Program services for 1,654 children during the period August 1, 1997 through July 31, 1998. Documentation provided by MDCA supported that the highest number of children enrolled and in attendance during any month of the grant year August 1, 1997, through July 31, 1998, was only 1,045. We calculated a funding amount per child for the 1997-1998 program year and applied that to the highest possible documented attendance. At its highest documented attendance, MDCA should have received only $3,857,095. We issued a Finding for Recovery of $2,248,932 for the excess funds received by MDCA.

   In December 1997, MDCA submitted a proposal to ODE to provide Program services to an additional 1,670 children over a 2 year period (Grant Period August 1, 1997 through July 31, 1999) for $12,466,492. As previously noted, MDCA was unable to provide documentation to support that it ever achieved its original funded enrollment of 1,654. In February 1998, the ODE approved $282,166 in funding for 100 of the 1,670 additional children. We issued a Finding for Recovery for the additional funding.

   In April 1998, ODE notified MDCA it would receive a one-time funding amount of $124,929 for 1998 based on a per child amount of $77.64 for each of the 1,609 children reported on MDCA's December 1997 Head Count report to ODE. MDCA was unable to provide documentation to support 673 children included in its December 1997 Head Count submitted to ODE. As a result, ODE paid MDCA $51,637 for this one-time funding for children for which MDCA was unable to provide documentation that children were enrolled and in attendance. We issued a Finding for Recovery for this additional funding.

MDCA had represented to ODE that it intended to pay private providers $19 per day for Program children serviced by them by presenting ODE with a "sample" contract which contained such a provision. In practice, MDCA modified that provision to state that they would pay the private provider "up to" $19 per day and actually paid private providers the difference between $19 and the Cuyahoga County day care voucher amount for children of families receiving that assistance. As a result, private providers were reimbursed amounts ranging from $1.50 per day to $10.25 per day by MDCA for the voucher children they serviced. According to ODE, payments received for daycare vouchers should not be deducted from the Program services fee and Program fees should not be used to supplant funds already being received from other state and/or federal sources.

By changing the wording of the contracts to read "up to $19 per day," MDCA was able to accumulate $1,221,590 in Program funding rather than passing those monies onto private providers. We issued a Finding for Recovery for these funds and recommended that for any monies recovered, ODE should establish a mechanism to identify private providers which did not receive the full $19 per day, calculate an amount due, and distribute the recovered funds to those private providers.

We also made several recommendations related to ODE's lack of substantial monitoring of Program grantees.

2. We determined whether MDCA expenditures from the Program were within approved budgets.

Significant Results - ODE did not monitor MDCA expenditures to ensure those expenditures were within the line-item budgets which ODE approved. Although ODE approved MDCA's final object class category budget, they did not request, receive, or approve a line item budget for MDCA for the Program fiscal year ending July 31, 1998. As a result, ODE had only a general awareness of how MDCA intended to expend grant funds. Additionally, there is no evidence that ODE monitored the object category budget by comparing actual expenditures to budget amounts to ensure that MDCA remained within budgeted amounts. Had ODE monitored MDCA's expenditure budget, ODE may have detected that MDCA underpaid private providers, exceeded budgeted amounts in four object class categories, made over $600,000 in mortgage payments in excess of the amount necessary to pay one year's mortgage, and accelerated its spending toward the end of the grant year.

By monitoring MDCA's expenditure budget and its Program enrollment/attendance (noted in Issue No. 1), ODE may have become aware that MDCA's funding level was excessive for the number of children actually being serviced and could have taken timely steps to reduce its funding. Thereby, making additional funds available to other worthy grantees that could provide Program services.

We issued 3 noncompliance citations and made management comments related to ODE's lack of monitoring of Program budgets.

3. We determined whether purchases of computer equipment, software, and services by the MDCA in the total amount of $782,430 were made pursuant to applicable authority.

   Significant Results - MDCA maintained a checking account at Key Bank which was titled their "Corporate Account." Ms. Bentley represented this account was funded by donations and co-payments from parents of children receiving daycare services. However, based on MDCA's accounting records, the funds in the account were accumulated primarily from Program interest and Cuyahoga County daycare vouchers, along with co-payments from parents of children receiving daycare services. These funds were used, in part, to purchase computer equipment and related software in the total amount of $782,430. A significant majority of this amount is represented by $675,000 of an $841,000 contract paid to a vendor, UniMicro, Inc., for which deliverables have not been substantially provided. The last payment MDCA made to UniMicro, Inc., on this contract occurred in February 2001. The owner of UniMicro, Inc., Benedict Uguru, declined to comply with a written request and a subpoena for UniMicro, Inc., business records related to this contractual arrangement. We were unable to determine whether Mr. Uguru provided the hardware, software, and consulting/implementation services identified in the project specifications, his contractual agreement, and his invoices to MDCA. In an interview, Mr. Uguru stated that none of the systems purchased by MDCA with respect to the $841,000 contract have ever been operational.

   We identified furniture purchased by UniMicro, Inc. totaling $19,726. Of that amount, furniture valued at $19,375 was delivered to the apartment of Verneda Bentley, MDCA's Executive Director and furniture valued at $351 was picked up at the store by Lamont Bentley, Verneda Bentley's son. This purchase occurred 10 days subsequent to a $300,000 payment from MDCA to UniMicro, Inc. on the $841,000 contract mentioned above. UniMicro, Inc. also made 9 payments totaling $9,780 to Abu Alli, an MDCA employee who wrote the specifications and solicited the bids for the contracted computer project, and a $2,250 payment to Lamont Bentley, Ms. Bentley's son. The payments by UniMicro, Inc., to Mr. Alli and the payment to Mr. Bentley occurred ranging from the same day to 88 days following payments from MDCA to UniMicro, Inc. We issued a Finding for Recovery for the cost of the computer equipment, related software, and consulting/implementation services totaling $675,000 since the systems purchased by MDCA are not currently operational. This finding amount included the cost of the furniture delivered to Verneda Bentley and the payments to Abu Alli and Lamont Bentley. In addition, due to the suspicious nature of these payments and the unwillingness of UniMicro, Inc. to cooperate with us in our efforts to determine the propriety of these payments, we will refer these matters to the U.S. Attorney's Office, the Federal Bureau of Investigation, the Inspector General's Office of the U.S. Department of Health & Human Services, and the Cuyahoga County Prosecutor's Office for further investigation.

4. On May 30, 2002, we held an exit conference with the following officials, administrative staff, and professionals representing ODE and MDCA:

   Matthew J. DeTemple, ODE Chief Legal Counsel
   David Varda, ODE Associate Superintendent of Finance and School Accountability
   Donna Hairston, ODE Internal Audit Administrator
   Pat Vaughan, ODE Educational Consultant
   Rev. Frank Mickens, MDCA Board Member
   Rev. Edward L. Cryer, MDCA Board Member
   Verneda Bentley, MDCA Executive Director
   Rev. Luther C. McDaniel, MDCA Assistant Executive Director
   Hays R. Thomas, CPA, an accountant representing MDCA
   Winsome McIntosh, CPA, an accountant representing MDCA
   Aziza D. Jimerson, an attorney representing MDCA
   Nicole C. Longino, an attorney representing MDCA
   Larry W. Zukerman, an attorney representing MDCA
   Michele L. Jakubs, an attorney representing MDCA

At the exit conference, we received a response from Verneda Bentley on behalf of MDCA. The response was evaluated and changes were made to the report as we deemed necessary.

While reviewing enrollment files presented by MDCA in response to our draft audit report, we noted documents which indicated Trava Bentley, the daughter of MDCA Executive Director, Verneda Bentley, had enrolled her son in the MDCA Head Start program. Trava Bentley's income eligibility appears to be based on an unsigned statement on MDCA letterhead that stated, as an MDCA employee, Trava Bentley's yearly income was about $15,000. MDCA's payroll ledgers for the period August 1, 1997 through July 31, 1998 indicated that Trava Bentley was paid $31,160 by MDCA. Trava Bentley's wages for this period were charged to the State Expansion Grant. We will refer this matter to the U.S. Attorney's Office, the Federal Bureau of Investigation, the Inspector General's Office of the U.S. Department of Health & Human Services, and the Cuyahoga County Prosecutor's Office for further investigation.

On several occasions we requested signed representations from Verneda Bentley, MDCA Executive Director, indicating that MDCA had provided all information they believed relevant to the Special Audit; that MDCA responded fully to all inquiries made during the Special Audit; that MDCA was unaware of any irregularities or illegal acts that would have an impact on our report; that there have not been any material transactions that have not been properly recorded in the accounting records underlying the Special Audit Report, and that no events have occurred subsequent that would require adjustment to the Special Audit Report. As of June 10, 2002, Ms. Bently did not provide such representations.

This report is intended for the use of the specified users listed above and is not intended to be and should not be used by anyone other than those specified parties. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

Jim Petro
Auditor of State

June 7, 2002

BACKGROUND INFORMATION

Ministerial Day Care Association (MDCA) is a 501(c)(3) non-profit organization that offers child development programs to low income families of Cuyahoga County. MDCA receives federal grants passed through either the Council for Economic Opportunities in Greater Cleveland or the Ohio Department of Education and a State Head Start Expansion Grant from the Ohio Department of Education.

The State Head Start Expansion Program is a comprehensive child development program that serves children from 3 years of age to compulsory school age and their families. It is a child-focused program and has the overall goal of increasing the school readiness of young children in low-income families. The Program was initiated to provide state funding to serve additional eligible children who were not already participating in federal Head Start programs.

On December 15, 1997, MDCA submitted their December 1997 Child Head Count Form to ODE. This form stated that for the week of December 1, 1997 through December 5, 1997, their funded enrollment[1] was 1,654 children, their actual current enrollment was 1,609 children, and they had 45 enrollment vacancies. The December 1997 Child Head Count Form was signed by Verneda Bentley, the Executive Director of MDCA, and included an affirmation that supporting documentation for the head count, including classroom rosters were available for review and would be maintained for 3 years from the date of the report.

On July 25, 2000, ODE received an anonymous letter in which the author stated that employees were ordered by their supervisor at MDCA to make up parents' names, children's names, and dates of birth on enrollment rosters in June or July of 1998. Submitted along with the anonymous letter were copies of 7 pages of enrollment rosters which contained the names of 63 children. In a subsequent letter to Governor Taft, dated December 19, 2000, James Gay, the former Assistant Deputy of Program Operations at MDCA, identified himself as the author of the anonymous letter. In that letter he stated it was brought to his attention that Ms. Bentley and Josephine Ward, MDCA Head Start Director, had directed the creation, manufacture, and submission of names of non-existent children.

On August 4, 2000, Pat Vaughan, an ODE Educational Consultant, sent a certified letter to Ms. Bentley which informed her of the anonymous letter received by ODE. He also instructed MDCA to provide ODE with the enrollment rosters which supported the December 1997 Child Head Count Form by August 14, 2000. On August 15, 2000, MDCA delivered their class rosters to ODE. Although the December 1997 Child Head Count Form reflected MDCA had a child enrollment of 1,609, MDCA provided ODE with an unorganized stack of rosters which reflected a child enrollment of 2,091. Those rosters included children from the Program and the Federal Head Start Program. Within those rosters were the 7 pages of enrollment rosters which were enclosed in the anonymous letter of July 25, 2000.

On August 30, 2000, Mr. Vaughan sent a letter to Ms. Bentley instructing her to make all individual child folders and attendance records supporting the December 1997 Child Head Count Form available for review by September 11, 2000. This letter further stated MDCA would be instructed by telephone on September 11, 2000, to pull selected individual child file folders and to deliver those folders to ODE's Brunswick office by 9:30 AM the following day. Those individual child file folders were to include documentation of family income, evidence of physical and dental examinations, teacher observation and contact with parents and guardians. In a letter dated September 8, 2000, which was received by ODE on September 11, 2000, Ms. Bentley informed Mr. Vaughan that due to the enormous volume of records, they had not yet completed the search and recovery of the records requested and, at that time, had located approximately 15% of the requested records. She further stated they would contact Mr. Vaughan on September 12, 2000, to update him on the status of his request.

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[1] "Funded enrollment" is the number of children to be serviced as indicated on the approved funding application.

On September 11, 2000, Mr. Vaughan sent a letter to Ms. Bentley acknowledging his receipt of her letter dated September 8, 2000, and directed Ms. Bentley to provide the individual child file folders for 30 specific children[2]. In addition, he instructed her to provide all of the approximately 15% of the requested records which were retrieved along with copies of the contracts with the child care providers at whose centers those children were enrolled. Those records were to be provided by 9:30 AM, on September 12, 2000. On September 12, 2000, representatives from MDCA attended a meeting at ODE's Brunswick office. At this meeting MDCA did not provide the records that were requested by Mr. Vaughan, but instead provided records from the 1996 program year. MDCA's Head Start Director, Ms. Ward, who was in attendance at this meeting, stated MDCA had made a mistake and that the enrollment rosters delivered to ODE on August 15th included the names of children that were not counted among the 1,609 children reported on the December 1997 Child Head Count Form. Mr. Vaughan instructed MDCA representatives to provide them with enrollment rosters supporting the December 1997 Child Head Count Form within 48 hours and to number those children from 1 to 1,609.

In a letter dated September 15, 2000, Ms. Bentley stated to Mr. Vaughan they could not meet his directive with complete accuracy in a 24 hour time period, but they had located a database of children's records that they were cross-checking against the class lists. She stated all requested documentation would be delivered to his office by September 18, 2000. On September 21, 2000, MDCA staff members delivered copies of enrollment rosters supporting the December 1997 Child Head Count Form to ODE. The children on those rosters were numbered 1 through 1,609.

On September 26, 2000, ODE representatives arrived at MDCA to review individual child file folders supporting the December 1997 Child Head Count form. In a letter dated September 29, 2000, Mr. Vaughan stated that during the review conducted on September 26, 2000, MDCA supplied boxes and stacks containing an array of documents which included daycare vouchers, health screening rosters, class lists, attendance lists and sign-in sheets that were in no particular order or sequence.

On September 28, 2000, Matt DeTemple, ODE Chief Legal Counsel, sent a written request to our office to perform a special audit of MDCA. Mr. DeTemple specifically requested we review the enrollment rosters of the 1997-1998 program year and the transactions related to the purchase of $675,000 in computer equipment and software.

On October 1, 2000, a newspaper article reported that Sheila Sheppard, MDCA's former Fiscal Manager, stated Ms. Bentley had forged Ms. Sheppard's name on a check, dated January 29, 2000, in the amount of $77,400 to UniMicro, Inc. This article further reported that former MDCA employees contended that MDCA officials failed to follow the agency's procedures with respect to $400,000 in payments from MDCA to UniMicro, Inc., between January and March 2000.

On October 4, 2000, the Auditor of State's Special Audit Committee voted to initiate a special audit of alleged falsification of fiscal year 1998 enrollment rosters and the purchase of a computer system and software by MDCA.

[2] These children were selected from the 63 children listed on the 7 pages of enrollment rosters included in the anonymous letter.

ISSUE NO. 1 - DETERMINE THE ELIGIBILITY OF 1,609 MDCA HEAD START CHILDREN FUNDED BY THE STATE EXPANSION PROGRAM DURING THE 1997-1998 PROGRAM YEAR

PROCEDURES

1. We obtained enrollment rosters from MDCA which allegedly supported the 1,609 children reported in the December 1997 Child Head Count Form submitted to ODE. We reviewed daily sign-in sheets, teachers' roll books, monthly attendance registers, a class record book, and December 1997 private provider billings to verify the existence and attendance of the 1,609 Head Start children included on the enrollment rosters.

2. We identified the eligibility requirements for children to receive Program services.

3. We verified whether children reported by MDCA on its December 1997 Head Count Form were eligible to receive services by reviewing eligibility documentation which could have included the following: individual income tax forms, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documents showing current status as recipients of public assistance.

4. We determined whether an MDCA Head Start staff member verified the eligibility of the children reported by MDCA on its December 1997 Head Count Form as required by CFR 45 Section 1305.4.

5. We determined whether the MDCA paid their private providers at the rate of $19/day per child as was the intent of the ODE.

RESULTS

1. On July 11, 1997, ODE's Division of Early Childhood Education received the Head Start Continuation Application from MDCA for the Program fiscal years ending July 31, 1998 and 1999. This two year application was in the amount of $12,395,235. Since the State Legislature had not yet appropriated funds in any of the ODE's line items for state fiscal year ending June 30, 1999, ODE only approved the portion of the application for Program fiscal year ending July 31, 1998.

   MDCA's approved application stated they would service 1,654 children for the program fiscal years ending July 31, 1998 and 1999. Of the 1,654 children, MDCA would directly service 374 children at their own day care sites and would service 1,280 children through contracts with private day care providers. Of the 374 children which were to be directly serviced by MDCA, 170 children were to be serviced in 10 full day classrooms and 204 children were to be serviced in 6 double session classrooms[3]. Of the 1,280 children which were to be serviced through private providers, 500 children were to be serviced through contracted full day slots and 780 children were to be provided with supportive services.[4]

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[3] Federal Head Start regulations limit the size of most classes to 17 children.

[4] According to MDCA's grant application approved by ODE, supportive services provided for assistance with recruitment, selection and enrollment, family needs assessment, and linkage to needed resources and services; behavioral observations, vision and hearing screenings, and assistance with health service follow-up and/or treatment; assisting teachers in preparation of lesson plans, conducting Chicago Early assessments, and managing their classrooms; providing toothbrushes and toothpaste for all children and training teachers in toothbrushing; and providing community resource booklets and agency letters for all families.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The MDCA December 1997 Child Head Count Form reflected that MDCA serviced 1,609 children during the period December 1, 1997 through December 5, 1997. We requested from ODE, the classroom rosters which supported MDCA's December 1997 Child Head Count Form. In an interview, Pat Vaughan, an Educational Consultant with ODE and the person to whom the December 1997 Child Head Count Form was submitted, stated ODE did not request classroom rosters to support the Head Count Form. He stated they required the Program grantees to maintain those rosters for 3 years, so if needed, ODE could go on site and review those documents. Ms. Bentley stated to us that MDCA submitted the classroom rosters to ODE when they submitted the December 1997 Child Head Count Form.

After reviewing copies of the enrollment rosters which were submitted to ODE[5] on September 21, 2000, we identified 17 children (numbers 90 through 106) who were allegedly serviced by the private provider All My Heart Education, and whose birthdates appeared to have been altered. Of those 17 children, we traced 13 children to 94-95 grant year billings. On December 20, 2000, we brought that particular enrollment roster to the attention of Mr. Bruce Rowell, MDCA's Social Services Supervisor. He stated to us we were reviewing the wrong enrollment rosters and, at that time, provided us with a third set of enrollment rosters supporting the December 1997 Child Head Count Form. The children on the third set of enrollment rosters were numbered 1 through 1,621. After reviewing the roster of 1,621 children, we determined the actual number of children's names on the rosters was 1,617 as 4 numbers were skipped. We used the roster of 1,617 children's names as the starting point for our examination.

The results of our examination of the documentation supporting MDCA's December 1997 Head Count Form are summarized in the following table:

	Brackland & Superior Direct Service Centers	Private Providers	Total
MDCA Roster (Count Submitted):	521	1,096	1,617
Deductions:			
Children Not Present from Dec. 1st - 5th '97:*	<145>	<520>	<665>
Names Duplicated on Roster:	<52>	<76>	<128>
Names Triplicated on Roster:	<16>	<6>	<22>
Ineligible Children Due to Age:	<6>	<8>	<14>
Additions:			
Children not on Roster but Received Service: **	34	17	51
November Children:***	38	67	105
Actual Head Count:	374	570	944
Difference Between Submitted Count & Actual:	<147>	<526>	<673>

* Not supported by attendance records such as daily sign-in sheets, teachers' roll books, monthly attendance registers, a class record book, or private provider billings.

** We credited MDCA with 51 children who were not reflected on the roster, but were identified by us as having been serviced by MDCA during the head count period.

*** According to federal regulations incorporated into the approved grant application by reference, vacancies must be filled within 30 calendar days. As a result, we credited MDCA with an additional 105 children who were not in attendance during the head count period, but were in attendance at least one day in November of 1997.

[5] The second set of rosters were generated by MDCA in anticipation of ODE's September 2000 site visit described in the background portion of this report.

As is noted in the previous table, MDCA's actual Program head count was only 944 children during the period December 1, 1997, through December 5, 1997.

ODE provided $6,106,027 in funding to MDCA to provide Program services to 1,654 children. Although, our recalculated December 1, 1997 through December 5, 1997 enrollment was only 944, or 57% of the children which were required to be serviced, ODE officials stated to us that the number of children to be serviced by MDCA at the time those funds were granted by ODE was actually a target number of children to be serviced.

Our review of private provider billings which reflected the attendance of children serviced at private provider sites during the grant year, and our review of nutrition records provided by Ms. Bentley which reflected the attendance of children serviced at direct service sites during the grant year noted that the most children in attendance at those sites in any given month during the period August 1, 1997 through July 31, 1998 was 1,045[6] during May of 1998. As was done with our recalculated December 1, 1997 through December 5, 1997 head count, we added children enrolled and in attendance in April of 1998 who were not in attendance in May of 1998 to arrive at a May enrollment of 1,045 children.

Using the number of children to be serviced from the approved grant application (1,654) and the amount of funding ($6,106,027), we calculated a funding amount per child to be $3,691 for the 1997-1998 program year. After applying our calculated funding per child to the actual MDCA May 1998 enrollment[7] (1,045), the amount of funding which should have been provided to service 1,045 children for the 1997-1998 program year was $3,857,095. As a result, MDCA received $2,248,932 in funding for children for which they were unable to provide documentation that children were enrolled and in attendance during the period August 1, 1997 through July 31, 1998.

On December 30, 1997, Ms. Bentley, on behalf of the MDCA, submitted a proposal to ODE to provide Program services to an additional 1,670 children over a 2 year period (Grant Period August 1, 1997 through July 31, 1999[8]) for $12,466,492. On February 13, 1998, the ODE approved funding for 100 of those 1,670 additional children in the amount of $282,166. As previously noted, MDCA was unable to provide documentation to support that it achieved its original funded enrollment of 1,654.

On April 23, 1998, ODE notified MDCA it would receive a one-time funding amount of $124,929 for 1998 in accordance with Am. Sub. H.B. 215 (1997)[9]. This amount was based on a per child amount of $77.64 for each of the 1,609 children enrolled, as indicated on MDCA's December 1997 Head Count Form submitted to ODE. On June 16, 1998, ODE's Division of Early Childhood Education approved MDCA's planned use of the $124,929 and the amended budget which incorporated it. MDCA was unable to provide documentation to support 673 children included in its December 1997 Head Count submitted to ODE. As a result, ODE paid MDCA $51,637 for this one-time funding for children for which MDCA was unable to provide documentation that children were enrolled and in attendance.

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[6] Actual documented enrollment/attendance for May 1998 was 980 children. However, we credited MDCA with 65 children which had documented attendance of at least one day in April 1998 because federal regulations incorporated into the Program indicate that vacancies must be filled within 30 calendar days.

[7] The most children in attendance in any month during the period August 1, 1997 through July 31, 1998.

[8] Children are required to be serviced a minimum 128 days in a year. As a result, service to additional children during the 97-98 grant year would have had to been initiated by February 1, 1998.

[9] State of Ohio legislation.

Although Section 2j of the approved Program Continuation Application required MDCA to submit copies of the rosters of children serviced to ODE, the December 1997 Child Head Count Form contained language that only required MDCA to retain classroom rosters for a minimum of 3 years and have them available for review. Mr. Vaughan stated ODE did not require Program grantees to submit copies of their classroom rosters because ODE did not have the space to store all of the rosters. We were not able to examine ODE's monitoring review of MDCA's December 1997 Head Count Form as ODE had discarded those records in accordance with their record retention policy.

After reviewing copies of ODE correspondence related to MDCA for the period July 1, 1994 through June 30, 2001, we could identify only 1 on-site monitoring visit conducted by ODE at MDCA during the 1997-1998 grant year. ODE conducted an on-site review at MDCA on July 2, 1998. Mr. Vaughan's internal memo summarizing that on-site visit makes no mention of reviewing any records related to child enrollment or eligibility. The next on-site visit occurred on December 16, 1998. That monitoring review consisted of interviews and record reviews from 9:30 AM to 3:00 PM. ODE's agenda for this review included a 2 hour and 20 minute block of time for record review. There was no specific mention in the agenda of an enrollment or eligibility review. Prior to those reviews, ODE's last monitoring review of MDCA occurred on March 18, 1996 through March 22, 1996.

In order to compile the number of children for the December 1997 Head Count Form, MDCA relied on the individual head counts for each direct service classroom and each private provider. These individual December 1997 head counts were completed and submitted by MDCA's Field Service Workers (FSW) to Bruce Rowell, MDCA's Social Service Supervisior. We requested all of the individual head counts from MDCA. Of the 22 direct center classrooms and 34 private providers, MDCA provided us with only 8 direct center FSW forms and 24 private provider FSW forms. We compared the head counts on the available FSW forms that MDCA provided to the results of our review of documentation supporting attendance for the December 1997 head count submitted to ODE. That comparison is reflected in the table on the following page. Our review indicated that our results were in close agreement with all of the individual FSW forms except for 3 private provider FSW forms. Upon further review, we determined in each of those 3 instances the private providers neither billed MDCA for services in that month nor were paid by MDCA for services in that month.

We interviewed Mr. Rowell who stated that he tallied the head count numbers from all of the FSW forms and incorporated those numbers onto the December 1997 Head Count Form which was submitted to ODE. When we asked Mr. Rowell to explain the discrepancies between the number of children reflected on the rosters and the individual FSW forms, he stated that the roster numbers and the December 1997 head count numbers were two different numbers[10]. He further stated that the roster included all children MDCA would have serviced from September 1997 through December 1, 1997 even if those children were dropped during that period. He stated that if a child sat in a seat for 1 day during the period September 1997 through November 1997, the child was counted. Although the roster submitted by MDCA, at ODE's request, was supposed to support the December 1997 Head Count Form, we determined that the roster included not only children who attended prior to December 1-5, 1997, but also at least 194 children who were not enrolled until after December 5, 1997.

[10] Contrary to Mr. Rowell's statement, MDCA submitted the roster to ODE as support for the December 1997 Head Count.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following table summarizes our comparison of the MDCA Roster, FSW forms, and our actual count for those locations for which we received a FSW form:

Direct Service Classrooms and Private Providers	MDCA Roster Counts	FSW's Head Counts	AOS Actual Count
Direct Service Classrooms:			
Brackland Class 6	34	16	17
Brackland Class 2	24	17	18
Brackland Class 3	22	15	17
Brackland Class 7 AM	19	16	18
Brackland Class 7 PM	31	17	16
Superior Class 12	25	17	21
Superior Class 2	18	17	15
Superior Class 3	27	17	19
Subtotal:	200	132	141
Private Provider Classrooms:			
Dawson Day Care	22	4	4
Agape Day Care	20	11	11
All My Heart	44	25	26
Bedford Heights Day Care	32	20	21
Building Blocks Child Care	15	12	13
Center For Little Angles	63	49	51
Clarkwood Child - Emery Rd.	50	35	37
Clarkwood Child Care - Richmond Rd.	43	23	26
East Cleveland Child Development	57	25	26
Evans Learning Center	17	16	14
Four Seasons Day Care & Pre-School-Beachwood	47	22	24
Grace Temple *	12	14	0
Happy Works III	20	21	21
Happy Works IV	21	10	9
Kenner Day Care Center	58	28	29
Lily Day Care Center	14	7	8
Magic Wand *	14	13	0
Nottingham Day Care	35	15	16
Pooh - County	50	29	32
Shaffer Learning Center	13	10	11
Social/Cultural Learning	18	10	10
Taylor Nursery	15	8	8
Tiny Tots Preschool *	57	13	0
Toddle Inn	65	20	35
Subtotal:	802	440	432
Grand Total:	1,002	572	573

* These day care sites did not bill MDCA for any services provided in November or December of 1997.

2. Section 2a of the approved Program Continuation Application required MDCA to operate the Program in accordance with federal Head Start regulations including the Head Start Act and the Code of Federal Regulations (CFR) 45 Parts 1301-1306, and 1308. The federal Head Start eligibility requirements are found in 45 C.F.R. Section 1305.

   45 C.F.R. Section 1305.2 states:

   (k) Low-income family means a family whose total annual income before taxes is equal to, or less than, the total income guidelines. For the purpose of eligibility, a child from a family that is receiving public assistance or a child in foster care is eligible even if the family income exceeds the income guidelines.

   45 C.F.R. Section 1305.4 states:

   (a) To be eligible for Head Start services, a child must be at least three years old by the date used to determine eligibility for public school in the community in which the Head Start program is located, except in cases where the Head Start program's approved grant provides specific authority to serve younger children. Examples of such exceptions are programs serving children of migrant families and Parent and Child Center programs.

   (b) At least 90 percent of the children who are enrolled in each Head Start program must be from low-income families. Up to ten percent of the children who are enrolled may be children from families that exceed the low-income guidelines but who meet criteria the program has established for selecting such children and who would benefit from Head Start services.

   (c) The family income must be verified by the Head Start program before determining that a child is eligible to participate in the program.

   (d) Verification must include examination of any of the following: Individual Income Tax Form 1040, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance.

   (e) A signed statement by an employee of the Head Start program, identifying which of these documents was examined and stating that the child is eligible to participate in the program, must be maintained to indicate that income verification has been made.

   45 C.F.R. Section 1305.7 states:

   (a) Each child enrolled in a Head Start program, except those enrolled in a migrant program, must be allowed to remain in Head Start until kindergarten or first grade is available for the child in the child's community, except that the Head Start program may choose not to enroll a child when there are compelling reasons for the child not to remain in Head Start, such as when there is a change in the child's family income and there is a child with a greater need for Head Start services.

   (b) A Head Start grantee must maintain its funded enrollment level. When a program determines that a vacancy exists, no more than 30 calendar days may elapse before the vacancy is filled. A program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.

   On March 17, 1997, the U.S. Department of Health and Human Services' Administration on Children, Youth and Families issued Information Memorandum 97-03. This memorandum stated the 1997 family income guidelines for Head Start programs.

3. As noted in our recalculated December 1, 1997 through December 5, 1997 head count, MDCA was able to support that 374 children attended their Brackland and Superior sites and 570 children attended private provider sites.

   Of the 374 children who attended MDCAs Brackland and Superior sites, 303 children were eligible, 33 children did not meet income eligibility requirements, 27 children's files could not be located, and 11 files did not maintain income eligibility documentation.

   See the Results of Procedure No. 4 of this issue for a discussion of program eligibility for the children serviced by private providers.

   Audits of MDCA's financial statements were performed by Watson, Rice & Co. for MDCA's fiscal periods ending January 31, 1998 and January 31, 1999. Those periods overlapped MDCA's Program grant year of August 1, 1997 through July 31, 1998. Based on a review of the working papers prepared by Watson, Rice & Co. supporting their audit reports for those two fiscal periods, Watson, Rice & Co. did not perform any tests of eligibility related to children who were allegedly provided services by MDCA with Program funding. The majority of MDCA's revenues for those two fiscal periods came from the Program. Financial statement auditors have the responsibility to design audit procedures to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts.

4. MDCA staff did not verify Program eligibility as required by CFR 45 Section 1305.4 for the 570 children included on the December 1997 Head Count Form who were provided Program services by private providers.

   According to Ms. Bentley, MDCA's verification of eligibility for children serviced by private providers consisted of reviewing the day care vouchers issued by Cuyahoga County for the children of families receiving that type of assistance. MDCA did not review any required eligibility documentation such as Individual Income Tax Form 1040's, W-2 forms, pay stubs, pay envelopes, or written statements from employers. It was Ms. Bentley's contention that day care vouchers substantiated current status as recipients of public assistance.

   ODE Educational Consultant, Pat Vaughan, stated to us that Cuyahoga County day care vouchers are not forms of public assistance. He cited U. S. Department of Health and Human Services ACYF-PI-HS-99-06, dated July 29, 1999, as authority for defining "public assistance" with respect to Head Start services. That Program Instruction stated "Historically, Head Start defined families eligible for public assistance as those who were receiving payments through the AFDC[11] program or through the SSI[12] program. With welfare reform and the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, AFDC has been replaced by the TANF[13] program." It further states "in determining a family's Head Start eligibility, grantees should consider a family as receiving public assistance if the family is receiving benefits or services, funded under the authority of the TANF program, which are being provided on a regular basis." Mr. Vaughan stated Cuyahoga County day care vouchers are funded through the Child Care Development Fund which are not TANF funds. Thus, MDCA should have determined the eligibility of children being serviced by private providers by reviewing eligibility documentation as stated above. Since MDCA did not require the families of children being serviced by private providers to submit those documents for their review, we could not determine the income eligibility of the 570 children who were serviced by private providers. As further stated in Result No. 5, we noted that 53 children serviced by private providers during the 1997-1998 Program Year were ineligible due to age requirements.

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[11] Aid to Families with Dependent Children

[12] Supplemental Security Income

[13] Temporary Assistance for Needy Families

Because MDCA erroneously based eligibility qualification on whether a child was receiving a County daycare voucher rather than Program requirements, MDCA received $2,103,870[14] in funding from ODE for children that could potentially not have been eligible for the Program. Had MDCA met its funded enrollment, it would have received $4,724,480 in funding from ODE for children that could potentially not have been eligible for the Program.

5. When MDCA was first approved by ODE to provide Program services, they submitted to ODE a sample of the contracts they were going to use when entering into agreements with private providers. ODE provided us with a copy of this sample "Purchase of Service" Contract. This sample contract stated they would reimburse private providers in the amount of $19 per day for each child receiving Program services at the private provider's day care center.

   Officials of ODE stated to us it was their intent that private providers were to be paid that rate by the MDCA. For contracts entered into between private providers and MDCA during the period August 1, 1997 through July 31, 1998, MDCA changed the terms as reflected in the original sample contract so that the contracts stated that MDCA agreed to pay the private providers ***up to*** $19 per full day child for voucher children and $19 per day for non-voucher children. The majority of the children being serviced by private providers were voucher children.

   MDCA reimbursed the private providers the difference between $19 and the amount per day the private providers were paid by Cuyahoga County for day care voucher children. As a result, private providers were reimbursed amounts ranging from $1.50 per day to $10.25 per day by the MDCA for the voucher children they serviced. Officials of ODE stated to us they did not know this was occurring and that it was their intent that private providers be paid $19 per day for all children who were serviced. In a letter dated February 13, 2002, Matthew J. DeTemple, ODE's Chief Legal Counsel, stated that payments received for daycare vouchers should not be deducted from the Expansion services fee. He cited Am. Sub. H.B. 215 (1997) and the approved grant application as authority.

   Am. Sub. H.B. 215 (1997) (lines 74,970 - 74,972) states "Moneys distributed under this heading shall not be used to reduce expenditures from funds received by a Head Start agency from any other sources." Section 2b of the Head Start Continuation Application submitted by MDCA and approved by ODE states "Funds received under this grant application shall not be used to supplant funds already being received from other state and/or federal sources."

   By changing the wording of the contracts to read "up to $19 per day," MDCA accumulated $1,221,590 in Program funding rather than passing those monies onto private providers, contrary to Am. Sub. H.B. 215 (1997) (lines 74,970 - 74,972) and Section 2b of the Head Start Continuation Application submitted by MDCA and approved by ODE. In addition, while quantifying the amount retained by MDCA, we noted that MDCA made payments in the amount of $7,709 to private providers for servicing 53 children who were ineligible due to age requirements.

[14] Based on our calculated funding of $3,691 per child developed in Result No. 1 of this issue.

FINDINGS FOR RECOVERY

1. Section 2a of the Head Start Continuation Application submitted by MDCA on July 11, 1997 and approved by ODE states in pertinent part "Applicant shall operate this program in accordance with federal Head Start regulations, including: the Head Start Act; Code of Federal Regulations (CFR) 45 Parts 1301-1306, and 1308; revised Performance Standards (effective 1/1/98); all applicable statutory provisions and rules adopted by the State Board of Education; and in accordance with the representations in this grant application." Furthermore, Section 2i of the Head Start Continuation Application submitted by MDCA and approved by ODE states "Applicant shall achieve full enrollment within 30 days of the start of classes or home visits for home based programs. If full enrollment is not achieved, Applicant must, within 35 days of the start of class, provide to the DECE[15], a corrective action plan to achieve full enrollment. This corrective action plan must be approved by the applicant governing board and Head Start Policy Council."

   MDCA's application represented to the ODE that they would provide Program services for a funded enrollment of 1,654 children. MDCA was able to provide documentation to support that only 944 of the 1,609 children reported to ODE in its December 1997 head count were enrolled and in attendance. MDCA was unable to provide documentation that more than 1,045 children were in attendance during any month in the grant year (August 1, 1997 through July 31, 1998), and thus did not achieve full enrollment within 30 days of the start of class. MDCA did not submit a corrective action plan to ODE. In addition, there is no evidence that MDCA made its governing board or Head Start Policy Council aware of the fact it was not fully enrolled.

   Using the number of children to be serviced from the approved grant application (1,654) and the amount of funding ($6,106,027), we calculated a funding amount per child to be $3,691 for the 1997-1998 program year. After applying our calculated funding per child to the actual MDCA May 1998 enrollment[16] (1,045), the amount of funding which should have been provided to service 1,045 children for the 1997-1998 program year was $3,857,095. As a result, MDCA received $2,248,932 in funding for children for which they were unable to provide documentation that children were enrolled or in attendance during the grant year.

   In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Ministerial Day Care Association and in favor of, on behalf of ODE, the State of Ohio's General Revenue Fund 200-406 in the amount of $2,248,932.

2. On December 30, 1997, MDCA submitted a proposal to ODE to provide Program services to an additional 1,670 children over a 2 year period (Grant Period August 1, 1997 through July 31, 1999[17]) for $12,466,492. On February 13, 1998, the ODE approved funding for 100 of those 1,670 additional children in the amount of $282,166. As previously noted, MDCA was unable to provide documentation to support that it achieved its original funded enrollment of 1,654; however, ODE funded MDCA with $282,166 to service an additional 100 children.

   In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Ministerial Day Care Association and in favor of, on behalf of ODE, the State of Ohio's General Revenue Fund 200-406 in the amount of $282,166.

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[15] Division of Early Childhood Education, an ODE department.

[16] See footnote No. 6.

[17] See footnote No. 8.

3. On April 23, 1998, ODE notified MDCA it would receive a one-time funding amount of $124,929 for 1998 in accordance with Am. Sub. H.B. 215 (1997). This amount was based on a per child amount of $77.64 for each of the 1,609 children enrolled, as reported on MDCA's December 1997 Head Count report to ODE. On June 16, 1998, ODE's Division of Early Childhood Education approved MDCA's planned use of the $124,929 and the amended budget which incorporated it. MDCA was unable to provide documentation to support attendance of 673 children included in its December 1997 Head Count submitted to ODE. As a result, ODE paid MDCA $51,637 for this one-time funding for children for which MDCA was unable to provide documentation that children were enrolled and in attendance.

   In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Ministerial Day Care Association and in favor of, on behalf of ODE, the State of Ohio's General Revenue Fund 200-406 in the amount of $51,637.

4. MDCA reimbursed the private providers the difference between $19 and the amount per day the private providers were paid by Cuyahoga County for day care voucher children. As a result, private providers were reimbursed amounts ranging from $1.50 per day to $10.25 per day by MDCA for the voucher children they serviced. Officials of ODE stated to us they did not know this was occurring and that it was their intent that private providers be paid in the amount of $19 per day for all children who were serviced. In a letter dated February 13, 2002, Matthew J. DeTemple, ODE's Chief Legal Counsel, stated that payments received for daycare vouchers should not be deducted from the Expansion services fee. He cited Am. Sub. H.B. 215 (1997) and the approved grant application as authority.

   Am. Sub. H.B. 215 (1997) (lines 74,970 - 74,972) states "Moneys distributed under this heading shall not be used to reduce expenditures from funds received by a Head Start agency from any other sources." Section 2b of the Head Start Continuation Application submitted by MDCA and approved by ODE states "Funds received under this grant application shall not be used to supplant funds already being received from other state and/or federal sources."

   By changing the wording of the contracts with the private providers to read "up to $19 per day," MDCA accumulated $1,221,590 in Program funding rather than passing those monies onto private providers, contrary to Am. Sub. H.B. 215 (1997) (lines 74,970 - 74,972) and Section 2b of the Head Start Continuation Application submitted by MDCA and approved by ODE.

   In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Ministerial Day Care Association and in favor of, on behalf of ODE, the State of Ohio's General Revenue Fund 200-406 in the amount of $1,221,590. We recommend ODE, after recovering those monies, establish a mechanism to identify private providers which did not receive the full $19 per day, calculate an amount due, and distribute the recovered funds to those private providers.

NONCOMPLIANCE CITATIONS

1. 45 C.F.R. Section 1305.4 *Age of Children and Family Income Eligibility* states in pertinent part:

   (c) The family income must be verified by the Head Start program before determining that a child is eligible to participate in the program.

   (d) Verification must include examination of any of the following: Individual Income Tax Form 1040, W-2 forms, pay stubs, pay envelopes, written statements from employers, or documentation showing current status as recipients of public assistance.

   (e) A signed statement by an employee of the Head Start program, identifying which of these documents was examined and stating that the child is eligible to participate in the program, must be maintained to indicate that income verification has been made.

The U. S. Department of Health and Human Services ACYF-PI-HS-99-06, dated July 29, 1999, defined "public assistance" with respect to Head Start services. That Program Instruction stated "Historically, Head Start defined families eligible for public assistance as those who were receiving payments through the AFDC program or through the SSI program. With welfare reform and the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, AFDC has been replaced by the TANF program." It further states "in determining a family's Head Start eligibility, grantees should consider a family as receiving public assistance if the family is receiving benefits or services, funded under the authority of the TANF program, which are being provided on a regular basis." Cuyahoga County day care vouchers are funded through the Child Care Development Fund which are not TANF funds. Thus, the MDCA should have determined the eligibility of children being serviced by private providers by reviewing the proper eligibility documentation as stated above.

MDCA's verification of eligibility for children serviced by private providers consisted of reviewing the day care vouchers issued by Cuyahoga County for those children. They did not review any required eligibility documentation such as Individual Income Tax Form 1040's, W-2 forms, pay stubs, pay envelopes, written statements from employers, or proper documentation showing current status as recipients of public assistance.

2. 45 CFR Section 1304.51(g) *Record-keeping systems* states in pertinent part "Grantee and delegate agencies must establish and maintain efficient and effective record-keeping systems to provide accurate and timely information regarding children, families, and staff."

   MDCA did not maintain records which supported an accurate child enrollment number.

3. 45 CFR Section 1305.5(c) *Recruitment of Children* states "Each program, except migrant programs, must obtain a number of applications during the recruitment process that occurs prior to the beginning of the enrollment year that is greater than the enrollment opportunities that are anticipated to be available over the course of the next enrollment year in order to select those with the greatest need for Head Start services."

   MDCA was unable to provide documentation which supported that this process took place. Our review noted that MDCA never had more than 1,045 children in attendance at any given point in time during the 1997-1998 program year.

4. 45 CFR Section 1305.6(d) *Selection Process* states "Each Head Start program must develop at the beginning of each enrollment year and maintain during the year a waiting list that ranks children according to the program's selection criteria to assure that eligible children enter the program as vacancies occur."

   The MDCA was unable to provide documentation which supported that they maintained a waiting list.

5. 45 CFR Section 1305.7(b) *Enrollment and Re-enrollment* states "A Head Start grantee must maintain its funded enrollment level. When a program determines that a vacancy exists, no more than 30 calendar may elapse before the vacancy is filled. A program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year."

   Documentation provided by MDCA indicated that they did not have more than 1,045 children in attendance during any given month of the 1997-1998 program year, thus never attaining its funded enrollment level.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

ODE Monitoring of Funded Enrollment

Although Section 2j of the approved Head Start Continuation Application required MDCA to submit copies of the rosters of children served to ODE, language on the December 1997 Child Head Count Form only required MDCA to retain classroom rosters for a minimum of 3 years and have them available for review. ODE stated they did not require Program grantees to submit copies of their classroom rosters because ODE did not have the space to store all of the rosters. We were not able to examine documentation supporting ODE's review of MDCA's December 1997 Head Count Form as ODE had discarded those records in accordance with their record retention policy.

Copies of ODE correspondence related to MDCA, which ODE provided for the period July 1, 1994 through June 30, 2001, noted only 1 on-site monitoring visit conducted by ODE at MDCA during the 1997-1998 grant year. ODE conducted an on-site review at MDCA on July 2, 1998. Mr. Vaughan's internal memo summarizing that on-site visit makes no mention of reviewing any records related to child enrollment or eligibility. The next on-site visit occurred on December 16, 1998. That monitoring review consisted of interviews and record reviews from 9:30 AM to 3:00 PM. ODE's agenda for this review included a 2 hour and 20 minute block of time for record review. There was no specific mention in the agenda of an enrollment or eligibility review. Prior to those reviews, ODE's last monitoring review of MDCA occurred on March 18, 1996 through March 22, 1996.

As a result of ODE's failure to adequately monitor MDCA's 1997-1998 Program enrollment, MDCA was funded in the amount of $2,248,932 for children for which MDCA could not provide documentation that children attended its or private providers' centers.

We recommend ODE implement procedures to adequately monitor the child enrollment of their Program grantees. Those procedures should include:

- Submission of complete and accurate rosters of grantees child enrollments.
- Performance of on-site monitoring visits at least annually, and more frequently for larger Program grant recipients.
- On a sample basis, verification of an enrolled child's attendance by reviewing all pertinent supporting documentation including class attendance records and parent/guardian drop-off and pick-up authorizations.
- On a sample basis, verification of an enrolled child's eligibility by reviewing all required eligibility documentation.

ODE Monitoring of Financial Statement Auditors

Audits of MDCA's financial statements were performed by Watson, Rice & Co. for MDCA's fiscal periods ending January 31, 1998 and January 31, 1999. Those periods overlapped MDCA's Program grant year of August 1, 1997 through July 31, 1998. Based on a review of the working papers prepared by Watson, Rice & Co. supporting their audit reports for those two fiscal periods, Watson, Rice & Co. did not perform any tests of eligibility related to children who were allegedly provided services by MDCA with Program funding. The majority of MDCA's revenues for those two fiscal periods came from the Program. Financial statement auditors have the responsibility to design audit procedures to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts.

We recommend ODE review the financial statement audits of Program grantees and, on a sample basis, review the supporting working papers to assure those audits were performed in accordance with OMB Circular A-133. ODE should also establish procedures by which the Department follows up on reported items which may impact Program operations and require grantees to submit written corrective action plans to address any significant reported items.

Eligibility Verification

MDCA staff did not verify the eligibility of the 570 children included on the December 1997 Head Count Form who were provided Program services by private providers as required by CFR 45 Section 1305.4. As a result of using an erroneous basis for determining eligibility, MDCA received $2,103,870[18] in Program funding for children that could potentially not have been eligible for the Program. Had MDCA met its funded enrollment, it would have received $4,724,480 in funding from ODE for children that could potentially not have been eligible for the Program. In addition, while quantifying the amount of under payments to the private providers by MDCA, we determined MDCA made payments in the amount of $7,709 to private providers for servicing 53 children who were ineligible due to age requirements.

We recommend MDCA research the appropriate eligibility requirements and establish procedures to ensure that children serviced by private providers are eligible for the Program. MDCA should use Program monies only for eligible children. We also recommend ODE review the eligibility of all the children that received services from MDCA's private providers during the Period and require MDCA to refund monies to ODE for children who were not eligible.

[18] See footnote No. 14.

ISSUE NO. 2 - DETERMINE WHETHER EXPENDITURES FROM THE STATE EXPANSION PROGRAM WERE WITHIN APPROVED BUDGETS

PROCEDURES

1. We obtained MDCA's original approved budget and any approved budget amendments for the Program during the Period.

2. We obtained MDCA's Expenditure Reports for the Program during the period and traced reported amounts to the general ledger.

3. We compared MDCA's actual expenditures for the Program during the Period to the final amended budget.

RESULTS

1. In June of 1997, ODE sent application packages to Program grantees for continuation funding for Program fiscal years ending July 31, 1998 and 1999. All applicant agencies were required to submit both an "object class categories" budget and a Head Start "line item" budget. The object class categories budget included the 7 general cost categories of personnel, fringe benefits, travel, equipment, supplies, contractual, and other. The line item budget was a detailed budget by line item within the above mentioned cost categories.

   On July 11, 1997, the ODE's Division of Early Childhood Education received the Head Start Continuation Application from MDCA for Program fiscal years ending July 31, 1998 and 1999. This two year application was in the amount of $12,395,235. Since the State Legislature had not yet appropriated funds in any of the ODE's line items for state fiscal year ending June 30, 1999, ODE only approved the portion of the application for Program fiscal year ending July 31, 1998. This portion was approved in the amount of $6,106,027 on August 13, 1997.

   Both the object class category and line item budgets submitted by MDCA in their application to ODE were two year budgets totaling $12,395,235. Although ODE approved only one Program year's funding, they did not require MDCA to resubmit either the object class category or the line item budgets in the approved amount of $6,106,027. As a result, MDCA never submitted, and ODE never approved, a budget for the $6,106,027. With respect to the 2 year budgets which were submitted with the application, we could not reconcile the line item budget amounts to the object class category budget.

   On February 13, 1998, ODE's Division of Early Childhood Education approved MDCA's application for an increase of $282,166 to its funding for Program fiscal year ending July 31, 1998, which increased its total funding for Program fiscal year ending July 31, 1998 to $6,388,193. Along with the application, MDCA submitted a line item budget for the $282,166 increase, but still had not submitted object class category or line item budgets for either the original grant amount of $6,106,027 or the subsequently approved amount of $6,388,193.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Pat Vaughan, the ODE's Educational Consultant, prepared the following handwritten object cost category budget totaling $6,388,193 which ODE provided to MDCA and served as MDCA's approved object class category budget.

Object Class Category	**ODE Handwritten Approved Budget on 2/13/98**
Personnel	$1,500,000
Fringe Benefits	655,000
Travel	45,000
Equipment	0
Supplies	62,500
Contractual	1,425,000
Other	2,700,693
Total	$**6,388,193**

Within the records maintained by the MDCA, we located the following object class category budget dated April, 1998 which also contained line item budget detail for the total grant amount at that time of $6,388,193. This budget was not formally approved by the ODE.

Object Class Category	**MDCA Generated "Revised 4/98" Budget**
Personnel	$2,275,500
Fringe Benefits	581,000
Travel	23,000
Equipment	130,000
Supplies	110,000
Contractual	1,021,500
Other	2,247,193
Total	**$6,388,193**

On June 16, 1998, ODE's Division of Early Childhood Education approved MDCA's application for an increase of $124,929 to its funding for Program fiscal year ending July 31, 1998 which increased its total funding for Program fiscal year ending July 31, 1998 to $6,513,122. Along with the application for funding, MDCA submitted a detailed line item budget for the $124,929 increase.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following schedule represents the MDCA amended object class category budget approved by ODE on 6/16/98:

Object Class Category	ODE Handwritten Approved Budget on 2/13/98	Increase/Decrease	Final ODE Approved Budget on 6/16/98
Personnel	$1,500,000	$775,500	$2,275,500
Fringe Benefits	655,000	(74,000)	581,000
Travel	45,000	(5,000)	40,000
Equipment	0	152,000	152,000
Supplies	62,500	83,429	145,929
Contractual	1,425,000	(403,500)	1,021,500
Other	2,700,693	(403,500)	2,297,193
Total	**$6,388,193**	**$124,929**	**$6,513,122**

Although ODE approved MDCA's final object class category budget, they did not request, receive, or approve a line item budget for MDCA for the Program fiscal year ending July 31, 1998.

2. MDCA submitted its last Head Start Quarterly Performance/Expenditure Report for the Program year ended July 31, 1998 to ODE on August 25, 1998. This report reflected total Program expenditures in the amount of $6,513,122 by MDCA. We verified $6,098,723 was posted to MDCA's Program general ledger account as of July 31, 1998 resulting in a variance of $414,399 as noted in the schedule below.

   MDCA did not prepare or retain worksheets, or roll ups, which tied the General Ledger Balance Reports to the Quarterly Performance/Expenditure Reports submitted to ODE. The following schedule represents the comparison of the expenditures as recorded in the MDCA accounting records and those reported to ODE.

Object Class Category	Expenses @ 7/31/98 per Ledger	Expenses per 8/25/98 Expenditure Report	Difference: 8/25/98 Report Over / (Under) Actual 7/31/98
Personnel	$2,324,854	$2,324,854	$0
Fringe Benefits	522,731	526,664	3,933
Travel	52,130	53,583	1,453
Equipment	66,310	174,242	107,932
Supplies	120,045	120,395	350
Contractual	1,135,101	1,204,067	68,966
Other	1,877,552	2,109,317	231,765
Total	**$6,098,723**	**$6,513,122**	**$414,399**

Of the $414,399 variance, we identified $139,685[19] as expenditure adjustments, for expenditures that were invoiced prior to or on July 31, 1998, but paid or posted to the ledger after August 1, 1998; $4,432 in expenditures for which MDCA could not provide the check or invoice; and the following expenditures, whose invoices were dated after July 31, 1998, and were used by MDCA to increase their ODE expenditure report by $270,282:

- A payment to Ruff's RV Center on February 3, 1999, in the amount of $70,317. The corresponding invoice was dated August 3, 1998. MDCA did not receive this vehicle until February of 1999. This vehicle was supposed to be used as a portable classroom at private provider sites. Although ODE approved the purchase of a vehicle in the amount of $50,000, MDCA spent $80,317 for a customized Winnebago[20].

- A construction loan payment to Huntington Bank on August 19, 1998, in the amount of $200,000. According to budget documents and the construction loan agreement, MDCA was to pay $75,000 per month for a total of $900,000 per year or $1,800,000 over the two year period of the grant. MDCA made construction loan payments for the year ended July 31, 1998, totaling $1,305,384. The $200,000 construction loan payment dated August 19, 1998 increased MDCA's construction loan payments which were charged to the Program year ended July 31, 1998 to $1,505,384. As a result, MDCA made over $600,000 in construction loan payments with Program funds in excess of the amount necessary for one year's payments.

  Attachment B, Paragraph 2 of the State Head Start Program Guidelines states "Construction, renovation and alteration costs may not exceed 25% of the direct costs of the State base grant." The State grant was in the total amount of $6,513,122. Although MDCA was required to report both direct and indirect costs within their quarterly expenditure reports, MDCA reported all expenditures as direct costs. By reviewing the indirect cost categories reflected in the approved grant application, we were able to determine that at a minimum[21], MDCA made expenditures totaling $881,135 which should have been reported as indirect costs. As a result, the direct costs of the base grant were, at maximum, $5,631,987. Based on our calculation, the limitation on construction costs was $1,407,997. MDCA made construction loan payments for the year ended July 31, 1998, totaling $1,305,384. The $200,000 construction loan payment dated August 19, 1998, increased MDCA's construction loan payments which were charged to the Program year ended July 31, 1998, to $1,505,384.

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[19] This amount included 3 checks totaling $10,940 which were manually issued by MDCA prior to July 31, 1998 but were booked subsequent to August 1, 1998.

[20] MDCA made a $10,000 down payment on July 24, 1998 for the Winnebago. Of the total purchase price of $80,317, MDCA charged $80,283 to the Program year ended July 31, 1998 and $34 to the Program year ended July 31, 1999.

[21] For the purposes of our calculation, we considered only those expenditures which were determined to be 100% indirect costs. There were expenditures made by MDCA which we considered to be dual costs, that is, portions of which would have been both direct and indirect. Since we could not accurately quantify those portions which would have been considered indirect costs, those expenditures are not part of our calculation.

3. Although MDCA did not exceed the total approved grant amount, MDCA expenditures exceeded ODE approved budgeted amounts in four object cost categories as reflected in the following schedule:

Object Class Category	Amended Budget	Expenses per 8/25/98 Expenditure Report	Difference: Expenses Over/ (Under) Budget
Personnel	$2,275,500	$2,324,854	$49,354
Fringe Benefits	581,000	526,664	(54,336)
Travel	40,000	53,583	13,583
Equipment	152,000	174,242	22,242
Supplies	145,929	120,395	(25,534)
Contractual	1,021,500	1,204,067	182,567
Other	2,297,193	2,109,317	(187,876)
Total	**$6,513,122**	**$6,513,122**	**$ 0**

ODE did not monitor MDCA expenditures to ensure those expenditures were within the object class category budgets which they approved.

MDCA's personnel budget of $2,275,500 was based on servicing 1,754 children. Although MDCA and its contracted private providers did not have in attendance or provide services to more than 1,045 children during any month of the grant year, they exceeded their personnel budget by $49,354.

After analyzing the expenditures reported by MDCA, it was apparent MDCA accelerated their pace of expenditures during the final quarter of the grant year. Their reported quarterly expenditures by cost category are reflected in the following table:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personnel	$ 580,610	$ 554,734	$ 543,182	$ 646,328	$ 2,324,854
Fringe Benefits	161,345	146,013	99,739	119,567	526,664
Travel	6,890	1,538	9,307	35,848	53,583
Equipment	0	0	0	174,243	174,243
Supplies	9,762	14,436	30,681	65,516	120,395
Contractual	220,108	275,693	233,739	474,526	1,204,066
Other	336,738	344,253	772,440	655,886	2,109,317
Total	**$ 1,315,453**	**$ 1,336,667**	**$ 1,689,088**	**$ 2,171,914**	**$ 6,513,122**

As stated in Issue 1, MDCA could not provide documentation to support that they enrolled and provided services to the number of children they asserted they would in their grant application. In addition, MDCA did not pay their private providers the amounts which ODE had intended for servicing children. As a result, MDCA had cash reserves which had to be spent in order to assure future funding.

MDCA reported $174,243 of expenditures for vehicles during the 4th quarter of the grant year. Although those payments were charged to the Program year ended July 31, 1998, MDCA did not receive those vehicles until after the grant year. As a result, those purchases did not benefit the children serviced in Program year ended July 31, 1998. Also, MDCA used Program funds to make over $600,000 in construction loan payments in excess of the amount necessary for one year's payments. Those excess payments were reported in the 3rd and 4th quarter of the grant year. Finally, MDCA's personnel expenses increased by over $100,000 in the 4th quarter of the grant year despite the fact that children's attendance at both their centers and private providers decreased dramatically in the last half of the 4th quarter due to summer vacation.

NONCOMPLIANCE CITATIONS

1. The State Head Start Program Guidelines, which are provided to Program Grantees with their invitation to submit an expansion application states in pertinent part "Unallowable expenditures are:

   - Expenditures which exceed the total approved application budget.

   - Construction, renovation, vehicles, equipment and computer costs that do not meet guideline requirements."

   Vehicle Purchase guidelines further state that a brief description including type of vehicle (bus, van, etc.), year of vehicle, seating capacity of vehicle, and acquisition cost of each vehicle must be provided for each new vehicle requested in the application.

   Although ODE approved the purchase of a vehicle in the amount of $50,000, MDCA spent $80,283 for a customized Winnebago. This purchase not only exceeded the approved ODE amount, but caused total equipment expenditures to exceed the approved equipment budgeted amount by $22,242.

2. Attachment B, Paragraph 3, Cost Limitations, of the State Head Start Program Guidelines states "Construction, renovation and alteration costs may not exceed 25% of the direct costs of the State base grant." The State grant (August 1, 1997 through July 31, 1998) was in the total amount of $6,513,122. Although MDCA was required to report both direct and indirect costs within its quarterly expenditure reports, MDCA reported all expenditures as direct costs. By reviewing the indirect cost categories reflected in the approved grant application, we were able to determine that at a minimum[22], MDCA made expenditures totaling $881,135 which should have been reported as indirect costs. As a result, the direct costs of the base grant were, at maximum, $5,631,987. Based on our calculation, the limitation on construction costs was $1,407,997.

   MDCA made construction loan payments for the year ended July 31, 1998 totaling $1,305,384. The $200,000 construction loan payment dated August 19, 1998 increased MDCA's construction loan payments which were charged to the Program year ended July 31, 1998 to $1,505,384 exceeding the amount permitted by $97,387.

[22] See footnote No. 21.

3. 45 CFR Section 1301.32(b) *Development and administrative costs* states "(1) Costs classified as developmental and administrative costs are those costs related to the overall management of the program. These costs can be in both the personnel and non-personnel categories. (2) Grantees must charge the costs of organization-wide management functions as development and administrative costs. These functions include planning, coordination and direction; budgeting, accounting, and auditing; and management of purchasing, property, payroll and personnel. (3) Development and administrative costs include, but are not limited to, the salaries of the executive director, personnel officer, fiscal officer/bookkeeper, purchasing officer, payroll/insurance/property clerk, janitor for administrative office space, and costs associated with volunteers carrying out administrative functions. (4) Other development and administrative costs include expenses related to administrative staff functions such as the costs allocated to fringe benefits, travel, per diem, transportation and training. (5) Development and administrative costs include expenses related to bookkeeping and payroll services, audits, and bonding; and, to the extent they support development and administrative functions and activities, the costs of insurance, supplies, copy machines, postage, and utilities, and occupying, operating and maintaining space." For reporting purposes, ODE refers to these development and administrative costs as indirect costs.

   MDCA did not report development and administrative costs, as they reported all expenditures as direct costs.

MANAGEMENT COMMENTS

Budget Monitoring

Although ODE approved MDCA's final object class category budget, they did not request, receive, or approve a line item budget for MDCA for the Program fiscal year ending July 31, 1998. As a result, ODE had only a general awareness of how MDCA intended to expend grant funds. Additionally, there is no evidence that ODE monitored the object category budget by comparing actual expenditures to budget amounts to ensure that MDCA remained within budgeted amounts.

MDCA expenditures exceeded the following budgeted classifications in the 97-98 grant year: Personnel in the amount of $49,354; Equipment in the amount of $22,242; Travel in the amount of $13,583; and Contractual in the amount of $182,567. In addition, MDCA used Program funds to make over $600,000 in mortgage payments in excess of the amount necessary to pay one year's mortgage. Had ODE monitored MDCA's expenditure budget, ODE may have detected that MDCA underpaid private providers as noted in the Findings for Recovery portion of Issue No. 1, exceeded budgeted amounts in four object class categories, made over $600,000 in mortgage payments in excess of the amount necessary to pay one year's mortgage, and accelerated its spending toward the end of the grant year.

We recommend ODE require Program grantees to also submit line item budgets to ODE for approval. At a minimum, on a quarterly basis, ODE should compare actual expenditures reported by grantees to the budgets to monitor the grantee's progress and determine whether spending patterns are consistent with other grantees that service similar numbers of children. While conducting on-site monitoring visits, ODE should verify, on a sample basis, whether the expenditure amounts reported on grantee expenditure reports are supported by source documentation and are traceable to the grantee's accounting records.

Budget/Expenditure Roll Ups

MDCA did not prepare or retain worksheets, or roll ups, which tied the General Ledger Balance Reports to the Quarterly Performance/Expenditure Reports submitted to ODE. Although we were able to determine the causes for the variances, by not maintaining such documentation, MDCA cannot demonstrate that expenditure reports submitted to ODE are based on its accounting records.

We recommend that MDCA prepare and retain the worksheets, or roll ups, that tie the General Ledger Balance Reports to the Quarterly Performance/Expenditure Reports for the State Expansion Grant.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Use of Expansion Program Funds

After analyzing the expenditures reported by MDCA, it was apparent MDCA accelerated their pace of expenditures during the final quarter of the grant year.

As stated in Issue 1, MDCA could not provide documentation to support that they enrolled and provided services to the number of children they asserted they would in their grant application. In addition, MDCA did not pay their private providers the amounts which ODE had intended for servicing children. As a result, MDCA had cash reserves which had to be spent in order to assure future funding.

MDCA paid $174,000 for vehicles in the 4th quarter of the grant year. Although those payments were charged to the Program year ended July 31, 1998, MDCA did not receive those vehicles until after the grant year. As a result, those purchases did not benefit the children serviced in Program year ended July 31, 1998. Also, MDCA made over $600,000 in construction loan payments with the state expansion grant in excess of the amount necessary. Those excess payments also occurred in the 4th quarter of the grant year. Finally, MDCA's personnel expenses increased by over $100,000 in the 4th quarter of the grant year despite the fact that children's attendance at both their centers and private providers decreased dramatically in the last half of the 4th quarter due to summer vacation.

We recommend ODE monitor the pace of expenditures by Expansion Grantees in order to determine whether those expenditures are for legitimate grant purposes and within approved budget guidelines.

ISSUE NO. 3 - DETERMINE WHETHER PURCHASES OF COMPUTER EQUIPMENT, SOFTWARE, AND SERVICES BY THE MDCA IN THE TOTAL AMOUNT OF $782,430 WERE MADE PURSUANT TO APPLICABLE AUTHORITY

PROCEDURES

1. We obtained supporting documentation related to MDCA expenditures totaling $782,430 to UniMicro, Inc. for the purchase of computer equipment, software, and services.

2. We identified the funding sources of those expenditures.

3. We determined whether the expenditures to UniMicro, Inc. were in compliance with applicable federal and state authority and MDCA's policies and procedures.

4. We observed the equipment purchased to determine its existence and physical location.

RESULTS

1. On February 7, 2000, MDCA issued Purchase Order No. 1250 to UniMicro, Inc. in the amount of $107,430 to purchase 14 computers and color printers, 18 timer clocks, an access server, software, network installation, and the design of a web page. MDCA issued two checks to UniMicro, Inc. with respect to that purchase order. The first payment was made on January 21, 2000, in the amount of $77,440. The second payment was made on December 15, 2000, in the amount of $29,990.

   On March 3, 2000, MDCA issued Purchase Order No. 1312 to UniMicro, Inc. in the amount of $841,000 to purchase a video camera system which was also called the Technology Plan 2000. To date MDCA has made 3 payments totaling $675,000 to UniMicro, Inc. for this purchase order. The first payment was made March 3, 2000, in the amount of $300,000. The second payment was made June 28, 2000, in the amount of $301,399[23]. The third payment was made February 9, 2001, in the amount of $75,000.

2. The two payments to UniMicro, Inc. totaling $107,430 related to Purchase Order No. 1250 were made out of MDCA's Huntington Bank checking account which was their Program account. Internally, $7,920 was posted to the Program Account; $45,975 was posted to MDCA's Child Daycare account; $18,535 was posted to the Council of Economic Opportunities of Greater Cleveland (CEOGC) Account; and $35,000 was posted to the CEOGC State Expansion Grant Account. The payments totaling $99,510 which were posted internally to accounts other than the Program related to Purchase Order No. 1250 were reimbursed to the Program account. Additionally, we noted instances where MDCA made payments from its Program account for purposes which were not Program related, and then subsequently reimbursed the account for those expenditures.

   The three payments to UniMicro, Inc. in the total amount of $675,000 for Purchase Order No. 1312 were made from MDCA's Key Bank checking account which was their corporate ledger account. Internally, those payments were posted to MDCA's Child Daycare account. According to Ms. Bentley, MDCA's corporate ledger account was their private account which was funded by donations and co-payments from parents for daycare services. Our review revealed that the major sources of funding for that account included Cuyahoga County daycare voucher payments, Program interest earned, and loan proceeds.

   As of April 12, 2002, MDCA has not made any additional payments related to these purchase orders to UniMicro, Inc. beyond the $782,430 noted in the transactions above.

[23] Of this amount, $1,399 was actually applied to a purchase order other than No. 1312.

3. MDCA's approved State Expansion Grant application, which acted as the contract between MDCA and ODE, incorporated the authority of 45 C.F.R. Section 1301.10 which further incorporated the authority of 45 C.F.R. Section 74.2 and 45 C.F.R. Section 74.24. Both sections refer to the term "program income". 45 C.F.R. Section 74.2 defines program income as:

   > gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with federal awards.

   45 C.F.R. Section 74.24 requires program income be used to further eligible State Expansion Grant objectives.

   MDCA's Superior and Brackland sites were built entirely using only Program grant funds. Had MDCA not built these facilities, they would not be able to directly service children and thus not receive County daycare vouchers and parent co-payments. As a result, we believe County daycare voucher payments received from Cuyahoga County for children attending the Brackland and Superior sites and co-payments received from parents or guardians of children attending those sites could be considered program income. On July 23, 2001, we sent a letter to Mr. Matthew DeTemple, ODE's Chief Legal Counsel, asking him for ODE's interpretation as to whether daycare voucher payments received from Cuyahoga County for children attending the Brackland and Superior sites and co-payments received from parents or guardians of children attending those sites were program income.

   In a letter dated October 12, 2001, Mr. DeTemple responded by stating "HHS would not require a program to consider such reimbursements as program income to the Head Start grant, provided these reimbursements were for Head Start children. On the other hand, HHS indicated that if a "non-Head Start" activity, such as daycare, were being provided to children who were not Head Start eligible, in a center that was built entirely with Head Start funds, Head Start would have to be compensated for the use of the building. We concur that there should be a cost allocation plan in place to address these issues."

   In a letter dated February 13, 2002, Mr. DeTemple, citing federal guidelines, further clarified ODE's position on this matter stating that "ACF[24] has concluded that revenue from providing non-Head Start services to Head Start eligible children is not program income." He further stated "that revenue from parent co-pays and daycare vouchers it receives for Head Start and non-Head Start children serviced at Brackland and Superior are not program income to the Ministerial Head Start program."

   Procurement of Computer Equipment and Services

   We attempted to determine whether the procurement of the computer equipment and services complied with MDCA's procurement policy.

   As MDCA's Information Systems Technician, Abu Alli developed the specifications for the Technology Plan 2000 and determined what equipment MDCA needed to purchase with Purchase Order Nos. 1250 and 1312. Mr. Alli also solicited the quotes which were received for those transactions and made the recommendations to award the purchases to UniMicro, Inc.

   The procurement policy which MDCA provided us was approved by MDCA's Board of Trustees on August 3, 2000. We were informed that as policies changed or were updated, the latest policies were inserted into the procedures manual and the old policies were discarded. As a result, we could not determine whether those purchases complied with MDCA's procurement policy in place at the time of the transaction.

[24] The U.S. Department of Health & Human Service's Administration for Children and Families.

In an interview, Benedict Uguru[25] stated he met Mr. Alli sometime in 1985 or 1986. Related to these quotes, he said Mr. Alli faxed blank quotes to his office which he filled out and faxed back to MDCA. He said Mr. Alli then called his office to inform him he would be supplying the equipment. In an interview, Mr. Abdul Nasser-Seidu, owner of KIMS, Inc., stated that shortly after meeting Mr. Alli at a party, he was provided with a blank quote sheet. He stated he filled out the quote and submitted it back to MDCA. After he did not hear back from MDCA, he called them and was informed the contract was given to someone else. We were not able to interview anyone from the Nelson Group as their phone was disconnected and they were no longer at the location listed on the quote.

Mr. Alli's job application with MDCA maintained in his personnel file stated he was an employee of UniMicro, Inc. from 1997 through July of 1999. Mr. Uguru stated Mr. Alli never worked for him, but did a few things late at night for him for which he was paid. We asked Mr. Uguru to provide us with the UniMicro, Inc. payments which were made to Mr. Alli. Mr. Uguru provided us with two checks paid to Mr. Alli totaling $500. UniMicro, Inc. made those payments to Mr. Alli while he was employed by MDCA . After reviewing the UniMicro, Inc. checks paid to Mr. Alli, we subpoenaed the UniMicro, Inc. Bank One checking account from which those checks were issued. A review of the copies of the checks received pursuant to the subpoena, noted UniMicro, Inc. actually issued 9 checks to Mr. Alli in the total amount of $9,780 subsequent to receiving payments from MDCA. All of those checks were issued by UniMicro, Inc. to Mr. Alli while he was employed by MDCA. After numerous attempts, we were unable to contact Mr. Alli to obtain further information regarding the purpose of the checks written to him by UniMicro, Inc.

While reviewing copies of the UniMicro, Inc. checks we received pursuant to our subpoena, we noted the following transactions:

- On March 6, 2000, UniMicro, Inc. deposited a $300,000 check received from MDCA into UniMicro, Inc.'s checking account at Bank One. That check, dated March 3, 2000 and authorized by Verneda Bentley and Luther McDaniel, was received as partial payment for MDCA Purchase Order No. 1312. On March 13, 2000, Mr. Uguru issued a check to Bank One in the amount of $26,892 for the purchase of two Bank One Official Checks[26]. One of those checks, dated March 13, 2000 in the amount of $25,274 was issued to Kronheim's Furniture. Kronheim's Furniture provided us with delivery invoices which indicated that purchase was for various living room, dining room, and bedroom furniture. Of the $25,274 purchase, furniture valued at $19,375 was delivered to 9303 Shady Lake Ln., Apt. 105, in Streetsboro, Ohio. Although all documents in Verneda Bentley's personnel file indicated her home residence was 1440 E. 95th St, Cleveland, Ohio, Verneda Bentley's bank statements from Bank One, which we obtained through subpoena, reflected that in March 2000 her residence was 9303 Shady Lake Ln., Apt. 105. Dominion East Ohio confirmed that Verneda Bentley's name was on the account at 9303 Shady Lake Ln. Apt. 105. In addition, furniture valued at $351 was picked up at the store by Lamont Bentley, Verneda Bentley's son. Of the remaining amount of the $25,274 furniture purchase, $2,012 was delivered to an address other than Ms. Bentley's and $3,536 was returned to Mr. Uguru by a Kronheim's Furniture check.

- We noted one check issued to Lamont Bentley on June 28, 2000 in the amount of $2,250. Lamont Bentley is the son of Executive Director, Verneda Bentley. Lamont Bentley was not an employee of MDCA or UniMicro, Inc.; however, Mr. Bentley was paid by MDCA during 2000 as a vendor. UniMicro, Inc. issued the check to Lamont Bentley on June 28, 2000, the same day they received a check from MDCA in the amount of $301,399. The face of the check reflected that the payment was for services and moving equipment.

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[25] Mr. Uguru is the owner of Unimicro, Inc.

[26] Cashiers checks

- Subsequent to receiving payments from MDCA, UniMicro, Inc. issued 5 checks to cash in the total amount of $39,000 which were endorsed and cashed by Linda Brown, an employee of UniMicro, Inc. Four of those checks reflected they were for "petty cash". One check reflected it was for travel expenses. During the same time period, UniMicro, Inc. issued 2 checks to Linda Brown in the total amount of $11,000. Both of those checks were endorsed and cashed by Linda Brown.

We requested the business records of UniMicro, Inc. for the period December 1, 1999 through September 30, 2000 in writing and through issuance of a subpoena to Mr. Uguru to determine the business purposes of those expenditures and determine whether equipment and services were provided to MDCA as invoiced by UniMicro, Inc. Mr. Uguru and his attorneys refused to comply with either our letter or subpoena.

The following table reflects the chronology of the payments from MDCA to UniMicro, Inc. and from UniMicro, Inc. to Mr. Abu Alli, Lamont Bentley, and Kronheim's Furniture.

Date of Payments from MDCA to UniMicro, Inc.	Amount	Date of Payments from UniMicro, Inc. to Abu Alli	Amount	Date of Payment from UniMicro, Inc. to Lamont Bentley	Amount	Date of Payment from UniMicro, Inc. for Furniture	Amount
01/29/00	$77,440	02/04/00	$1,000				
		02/25/00	$280				
03/03/00	$300,000	03/07/00	$2,000			03/13/00	$25,274
		03/23/00	$300				
		04/04/00	$1,000				
		04/10/00	$200				
		05/19/00	$1,200				
		05/30/00	$2,000				
06/28/00	$301,399	07/24/00	$1,800	06/28/00	$2,250		

Due to the suspicious nature of these payments and the unwillingness of UniMicro, Inc. to cooperate with us in our efforts to determine the propriety of these payments, we will refer these matters to the U.S. Attorney's Office, the Federal Bureau of Investigation, the Inspector General's Office of the U.S. Department of Health & Human Services, and the Cuyahoga County Prosecutor's Office for further investigation.

4. As stated in Result No. 1, we reviewed MDCA purchases in the total amount of $782,430 from UniMicro, Inc.

MDCA Purchases from UniMicro, Inc. Related to Purchase Order No. 1250

The first purchase we reviewed was the purchase of equipment, software and services in the total amount of $107,430. This purchase included 14 personal computers along with monitors, 18 timer clocks, installation of the 18 timer clocks, an access server, software, network installation, a web page design, and 14 color printers. There was no formal contract entered into between MDCA and UniMicro, Inc. with respect to that purchase. MDCA Purchase Order No. 1250 served as the sole agreement between MDCA and UniMicro, Inc. After performing a physical inspection of equipment and services provided with respect to Purchase Order No. 1250, the exceptions we noted were as follows:

- We could not determine whether the computer at the administration building met the requirements of the purchase order specifications because MDCA told us it was being repaired.
- 3 computers did not have a 6.4 GB Hard Drive as specified in the purchase order.
- 13 computers did not have a 64 MB RAM as specified in the purchase order.
- 1 computer was not an Intel PIII 500 MHZ Computer as specified in the purchase order.

- 3 monitors were not 15" monitors as specified in the purchase order.
- 1 printer was not an HP 1100se printer as specified in the purchase order.
- MDCA was not able to locate either the monitor or printer at the administration building or a printer at the Children's First Learning & Enrichment Center on E. 89th St..
- Although payments on Purchase Order No. 1250 were made to UniMicro, Inc. in January and December 2000, the timer clocks were not installed until October of 2001. According to the purchase order, these timer clocks were supposed to be installed and configured by UniMicro, Inc. In an interview, Robert Watson, MDCA's Facility Monitor, stated all of the timer clocks were configured by Donald Johnson, an MDCA Computer Teacher. Ms. Shirley Lawrence, the Director of the Superior Head Start Academy, stated the timer clock in her facility was installed by Lamont Bentley. In an interview, UniMicro, Inc.'s owner, Benedict Uguru, stated his job was to assemble the timer clocks and after he assembled them he gave them to Lamont Bentley and Donald Johnson to mount on the walls.

The first payment towards this purchase by MDCA was Check No. 4300 in the amount of $77,440, dated January 29, 2000. Although this check was issued on January 29, 2000, the purchase order was not completed until February 7, 2000. During our review we observed three different copies of this check. The first check copy we reviewed was one submitted to Winsome McIntosh, an accountant with Dingus & Daga, Inc[27]., on February 26, 2000 for the purpose of entering the expenditure into the ledger. According to Ms. McIntosh, she refused to enter the transaction into MDCA's ledgers because the copy had no authorizing signatures and was not accompanied by an approved purchase order or bids or quotes related to the purchase. Ms. McIntosh stated that she returned the check copy to Sheila Sheppard, MDCA's Fiscal Manager.

Ms. Sheppard stated that after she reviewed the copy of the unauthorized check, she questioned Kim Spencer, an MDCA Accounting Specialist. Ms. Spencer provided Ms. Sheppard with a second copy of the check which was signature stamped by both Ms. Sheppard and Verneda Bentley. According to Ms. Sheppard, Ms. Spencer stated she did not know who stamped the signatures on the check as it was under her door when she arrived at her office. Ms. Sheppard stated she did not signature stamp the check. Ms. Bentley also stated she did not signature stamp the check.

Upon reviewing the cancelled check, Ms. Sheppard stated her signature on the check was forged. Ms. Sheppard provided the check to the Cleveland Police Department. In an interview with us, Ms. Bentley stated she signed Ms. Sheppard's name to the check because Ms. Sheppard was out sick at the time. She further stated that Ms. Sheppard and she had signed each other's signatures other times when one of them was not there in order to facilitate payments. Ms. Sheppard confirmed Ms. Bentley's statement.

The second and final payment towards this purchase by MDCA was Check No. 4832 in the amount of $29,990, dated December 15, 2000.

[27] At the time, the certified public accounting firm of Dingus & Daga served as MDCA accountants.

MDCA Purchases from UniMicro, Inc. Related to Purchase Order No. 1312

On February 14, 2000, MDCA entered into a contract with UniMicro, Inc. for the purchase of equipment and services as reflected in Purchase Order No. 1312. This agreement, titled “Equipment and Software Sales /Development Agreement,” was entered into on behalf of MDCA by the Executive Director, Verneda Bentley. Although the agreement stated that UniMicro, Inc. agreed to sell and MDCA agreed to buy the equipment and programs specifically described in the “Itemized Hardware and Software Description Form” enclosed with the agreement, neither MDCA nor UniMicro, Inc. were able to provide this form. Both UniMicro, Inc. and MDCA provided us with price quotes which generally described the equipment and services to be purchased. The agreement stated the hardware cost to be $508,885 and the software cost to be $332,115. We were not provided with any documentation which detailed those two costs.

We reviewed the purchases related to Purchase Order No. 1312 which consisted of a video camera system in the amount of $395,000, a database/management information system with 250 user licenses in the amount of $277,500, a 4-line interactive voice response system in the amount of $113,885, and intranet development in the amount of $54,615. This entire purchase was known as the “Technology Plan 2000". ODE provided us with copies of UniMicro, Inc. price quotes to MDCA which provided further detail of the equipment and services to be provided by UniMicro, Inc. Neither UniMicro, Inc. nor MDCA had provided copies of those price quotes to us. This documentation reflected UniMicro, Inc. was to provide 5,335 hours of service at $75 per hour, 250 Oracle licenses at a cost of $125 each, and $475 in software. Those services and software totaled $431,850 which did not reconcile to the $332,115 of total software cost reflected in the “Equipment and Software Sales /Development Agreement.” In addition, this documentation indicated UniMicro, Inc. was to provide hardware totaling $425,602 which did not reconcile to the $508,885 of total hardware cost reflected in the “Equipment and Software Sales /Development Agreement.”

The invoice submitted by UniMicro, Inc. on June 27, 2000 in the amount of $300,000 which was paid by MDCA on June 28, 2000 reflected that all equipment related to the contract had been delivered and installed. We attempted to identify the equipment and services UniMicro, Inc. actually provided to MDCA and noted the following:

<u>Software Licenses</u>

Although UniMicro, Inc. was to provide MDCA with 250 Oracle licenses at a cost of $125 each, in an interview, Benedict Uguru[28] stated he provided MDCA with approximately only 25 licenses as that was the number of MDCA employees who would have access to the server at the same time.

<u>Labor Hours</u>

The UniMicro, Inc., price quote documentation provided by ODE reflected he was to provide 5,335 hours of service at the rate of $75 per hour. UniMicro, Inc. had only 4 other employees other than Mr. Uguru, and one of those employees was the Office Manager.

<u>Video Camera System</u>

According to Mr. Uguru, this system has never been operational. None of the 89 cameras have been installed at any of the locations. Mr. Uguru stated he has purchased 8 test cameras to date; however, has not been able to install them because MDCA either does not have servers at the locations where cameras were to be installed or the server at a location is not adequate. He said that it was not part of his contract to provide the servers at the locations. He stated he only was to provide the main server at MDCA’s administrative office. In addition, the communication lines have been activated between the main server and the outlying locations, so MDCA has been paying for communication lines although no system is operating yet.

[28] Mr. Uguru is the owner of UniMicro, Inc.

Database/Management Information System Development

According to Mr. Uguru, this system has never been operational. Mr. Uguru stated he has purchased an Oracle database system and is currently in the process of developing applications for this system. This work includes numerous systems as outlined in the purchase order and contract. Mr. Uguru stated he had outside consultants assisting in this development. Mr. Uguru stated this portion of the project is in the developmental stage.

4-Line Interactive Voice Response System

According to Mr. Uguru, this system has never been operational. Mr. Uguru stated he is developing this system on his own and it is in the development stage.

Intranet Development

Mr. Uguru stated he has completed the services he was to provide related to intranet development except for the training of 2 employees to man the help desk and maintain and support the intranet site. He stated MDCA does not currently have the funding to hire 2 employees to man the help desk, so the intranet system developed by Mr. Uguru has not been installed and thus not in operation.

We issued both a written request and a subpoena to Mr. Uguru to provide his company's business records. Since Mr. Uguru declined to respond to either our written request or our subpoena, we could not determine, other than through Mr. Uguru's statements, whether Mr. Uguru provided 5,335 hours of service or the software and hardware required to be provided according to the specifications, agreement, and invoicing. Since we were unable to determine whether Mr. Uguru provided the hardware, software, and consulting/implementation services identified in the project specifications, his contractual agreement, and his invoices to MDCA, and none of the systems purchased by MDCA with respect to the $841,000 contract have ever been operational, we will issue a Finding for Recovery for $675,000.

FINDING FOR RECOVERY

On February 7, 2000, MDCA issued Purchase Order No. 1250 to UniMicro, Inc. in the amount of $107,430 to purchase 14 computers and color printers, 18 timer clocks, an access server, software, network installation, and the design of a web page. MDCA issued two checks to UniMicro, Inc. with respect to that purchase order. The first payment was made on January 21, 2000 in the amount of $77,440.

On March 3, 2000, MDCA issued Purchase Order No. 1312 to UniMicro, Inc. in the amount of $841,000 to purchase a video camera system which was also called the Technology Plan 2000. The first payment was made March 3, 2000 in the amount of $300,000. The second payment was made June 28, 2000 in the amount of $300,000. The third payment was made February 9, 2001, in the amount of $75,000. As of April 12, 2002, MDCA has not made any additional payments related to these purchase orders to UniMicro, Inc. Our review of that purchase determined that much of the work has either not been performed or completed, and none of the system is currently operational.

In addition we noted that subsequent to the above mentioned payments, UniMicro, Inc. made the following disbursements:

- Nine checks to Mr. Abu Alli in the total amount of $9,780. Mr. Alli was MDCA's Information Systems Technician and developed the specifications for the Technology Plan 2000 and determined what equipment MDCA needed to purchase with Purchase Order Nos. 1250 and 1312. Mr. Alli also solicited the quotes which were received for those transactions and made the recommendations to award the purchases to UniMicro, Inc. Mr. Alli was employed by MDCA at the time he received those payments.

- One check issued to Lamont Bentley on June 28, 2000 in the amount of $2,250. Lamont Bentley is the son of Executive Director, Verneda Bentley. UniMicro, Inc. issued the check to Lamont Bentley on June 28, 2000, the same day they received a check from MDCA in the amount of $301,399.

- One check to Bank One in the amount of $26,892 for the purchase of two Bank One Official Checks. One of those checks, dated March 13, 2000 in the amount of $25,274 was issued to Kronheim's Furniture. Kronheim's Furniture provided us with delivery invoices which indicated that purchase was for various living room, dining room, and bedroom furniture. Of the $25,274 purchase, furniture valued at $19,375 was delivered to 9303 Shady Lake Ln., Apt. 105, in Streetsboro, Ohio. Although all documents in Verneda Bentley's personnel file indicated her home residence was 1440 E. 95th St, Cleveland, Ohio, Verneda Bentley's bank statements from Bank One, which we obtained through subpoena, reflected that in March 2000 her residence was 9303 Shady Lake Ln., Apt. 105. Dominion East Ohio Gas confirmed with us that Verneda Bentley's name was on the account at 9303 Shady Lake Ln. Apt. 105. In addition, furniture valued at $351 was picked up at the store by Lamont Bentley, Verneda Bentley's son.

We requested the business records of UniMicro, Inc. for the period December 1, 1999 through September 30, 2000 in writing and through issuance of a subpoena to Mr. Uguru and Mr. Uguru and his attorneys refused to comply with either our letter or subpoena.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the following parties in their respective amounts: UniMicro, Inc., $643,244; Verneda Bentley, $19,726; Abu Alli, $9,780; and Lamont Bentley,$2,250; and in favor of Cuyahoga County.

NONCOMPLIANCE CITATIONS

1. Chapter I Purchasing Procedures of the MDCA Inventory and Procurement Procedures Manual required purchases to follow the purchasing cycle described, in part, below:

   <u>Receiving</u>

   Upon receipt of the ordered equipment, quantities and descriptions are checked against the purchase order by the approving department and the Purchasing Officer, Program Operations Supervisor or designated member of their staff.

   Merchandise is physically inspected prior to acceptance.

   Packing slips are forwarded to the fiscal department

   <u>Property Record Form</u>

   Upon receipt of the above receiving records, the MDCA's Purchasing Officer will fill out the property record form.

   The original form will be maintained by the Purchasing Officer in the property record files. Property record forms are prepared for all equipment purchases having a useful life greater than one year, regardless of acquisition cost.

   The Purchasing Officer will assign all property an identification number and prepare an inventory tag.

   MDCA did not perform any of the above mentioned procedures with respect to its purchase of computer services, equipment, and software in the total amount of $675,000.

2. The MDCA Personnel Policies and Procedures Manual, Section VI, titled Employee Business Conduct, the Acceptance of Gifts and Gratuities portion states "Employees and members of their immediate families, members of the Board of Directors of MDCA and members of any policy-making body of MDCA are prohibited from accepting gifts, money and gratuities from:

   * Persons receiving benefits or services from any program operated by MDCA;
   * Persons or agencies performing services under contract to MDCA; or,
   * Persons who are in any way in a position to benefit from the actions of any employee or Board Member of MDCA may be terminated or removed from office."

   Subsequent to receiving payments from MDCA, UniMicro, Inc. made payments to Abu Alli, the MDCA employee who wrote the specifications and solicited the bids; to Lamont Bentley, Ms. Verneda Bentley's son; and to Kronheim's furniture for the purchase of furniture which was delivered to Verneda Bentley's personal residence. As stated previously, UniMicro, Inc. was a vendor of MDCA and had a contract with them to provide computer services, equipment, and software.

MANAGEMENT COMMENTS

Program Income

According to the federal regulations which govern the operation of Head Start programs and were incorporated into the MDCA approved grant application, program income is gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with federal awards. Program income cannot be used for items, services, etc. that do not further eligible State Expansion Grant objectives.

The majority of MDCA's annual organizational funding consists of Program grant proceeds. Two of MDCA's major facilities, the Superior and Brackland sites, were built entirely with Program grant funds. There was a lack of clarity as to whether income generated by those two sites, mainly in form of Cuyahoga County Daycare Vouchers and parent co-payments should have been considered program income and thus used for program purposes. The income received by MDCA for services provided at those sites was used to make purchases totaling $675,000 for computer equipment and related software development services for a video camera computer system of which the vendor, UniMicro, Inc., has either not provided or placed into operation. No portion of the project is currently operational; however, the vendor has received over 80% of the contracted purchase price of $841,000. In addition, a portion of the funds received by UniMicro, Inc., for this contract and for another computer related purchase was used to make disbursements to principals and related parties of MDCA.

We recommend ODE reach a firm conclusion as to what constitutes program income and clearly inform its Program grantees of that conclusion. Future contracts with Program grantees should incorporate provisions which explicitly define program income and its allowed uses.

State Expansion Program Account

Payments to UniMicro, Inc. in the total amount of $107,430 were made out of MDCA's Huntington Bank checking account which was their Program account. However, internally $99,510 was posted to accounts other than their Program account. Those payments were subsequently reimbursed to the Huntington Bank Program account. In many instances, MDCA made payments from its Program account for purposes which were not Program related, and then subsequently reimbursed the account for those expenditures. Payments from the Program account for other than Program purposes could lead to a lack of accountability over Program funds.

We recommend MDCA discontinue the practice of using State Expansion funds to “advance” its corporate account expenses as payments from the Program account should be for Program purposes. We also recommend ODE’s periodic on site reviews include a review of the corporate account ledger to ensure State Expansion funds are not being used in this manner.

Purchase of the “Technology Plan 2000" from UniMicro, Inc.

Our review of MDCA’s purchase of the “Technology Plan 2000" noted the following:

- The agreement stated the hardware cost to be $508,885 and the software cost to be $332,115. Neither MDCA nor UniMicro, Inc., were able to provide documentation which detailed those two costs.
- Price quotes for computer hardware and software costs provided by the computer system vendor did not reconcile to the costs included in the “Equipment and Software Sales /Development Agreement.”
- According to the vendor, the video camera system has never been operational. None of the 89 cameras have been installed at any of the locations.
- According to the vendor, the Database/Management Information System has never been operational. The vendor stated he has purchased an Oracle database system and is currently developing applications for this system. The vendor stated that this project is still in the developmental stage.
- According to the vendor, the 4-Line Interactive Voice Response System has never been operational and is in the development stage.
- According to the vendor, the services to be provided related to intranet development have been completed except for the training of 2 employees to man the help desk and maintain and support the intranet site. The vendor stated MDCA does not currently have the funding to hire 2 employees to man the help desk, so the intranet system has not been installed.

As a result, MDCA paid $675,000 to UniMicro, Inc. for equipment and services related to this $841,000 contract even though much of the work has not been completed and none of the system is currently operational.

We recommend MDCA implement policies and procedures which requires it to write detailed specifications for goods and services; enter into contracts which clearly detail equipment and services to be provided along with costs; and prohibit payments to vendors in advance of goods or services being provided.

We recommend that MDCA take a proactive approach to monitoring the contract with UniMicro, Inc., to provide the video camera computer system to ensure that there is progress toward completing the project and that MDCA receives equipment and services for which it has already paid. Should UniMicro, Inc., not make satisfactory progress toward completing the project, MDCA should consult with its legal counsel to determine whether any legal remedies are available for it to recover all or a portion of the monies paid to UniMicro, Inc.

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MINISTERIAL DAY CARE ASSOCIATION

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 18, 2002